

Memorandum

TO: In Support of Maryland Jobs & Schools

FROM: Sage Policy Group, Inc.

Re: Impact of Question 7

Introduction & Purpose

Since the introduction of slot machines in 1997, Maryland has been Charles Town's most lucrative market, with the most supportive jurisdiction being Montgomery County. In an effort to recapture lost economic and fiscal activity, Marylanders ultimately legalized video lottery terminals (VLTs) after a November 2008 referendum in which voters authorized 15,000 machines at five locations in Maryland.¹

Despite the introduction of several facilities in Maryland, the state continues to play catch-up, in part because the existing facilities may not be attractive enough to undo previously established patterns of behavior or perhaps because they are not strategically situated. Accordingly, in August 2012, the Maryland legislature passed a new law that introduces Question 7, which will be presented to Maryland voters this November.² The referendum will authorize a casino in a four-mile swath of far-western Prince George's County that includes National Harbor and Rosecroft Raceway as well as permitting table games there and at the five other locations already approved by the state, three of which are already in operation.³

One of the primary objectives embodied in Question 7 is recapturing additional lost economic activity while encouraging more out-of-staters to play in Maryland. Based on findings in a 2007 DLLR study and Fiscal Notes provided by the Department of Legislative Services, approximately 30 to 37 percent of Charles Town's gaming revenue comes from Maryland players.^{4,5} The fact that Charles Town is generating more weekly revenue today than it was in 2007 is an indication that Maryland's currently operating facilities have not produced as much impact as desired.⁶

A new gaming facility located in far-western Prince George's County, by virtue of location and with the inclusion of table games, will both ensure Maryland will be competitive with other mid-Atlantic states on gaming. The purpose of this memorandum is to investigate the extent to which the new Prince George's County facility and the addition of table games at Maryland's other facilities would finally release Charles Town's grip on Maryland's economy and tax base.

It should be noted that this analysis focuses specifically on Charles Town because it is the largest single beneficiary of the spending of Marylanders on gaming. However, the impact of Pennsylvania and Delaware facilities on Maryland's economy should not be discounted.

Some Relevant History

In 1994, West Virginia authorized VLTs at four different horse tracks.⁷ In December 2009, table games were instituted at Charles Town after the residents of Jefferson County approved these games through a referendum

¹Senate Bill 3, Fiscal and Policy Note (Revised), 2007 Special Session. (2007), p.3. Retrieved September 24th, 2012, from http://mlis.state.md.us/2007s1/fnotes/bil_0003/sb0003.pdf, p.8

²Linskey, Annie & Michael Dresser. (August 15, 2012). General Assembly oks casino bill. *Baltimore Sun*. Retrieved September 28th, 2012, from http://articles.baltimoresun.com/2012-08-15/news/bs-md-gambling-session-tuesday-20120814_1_table-games-slot-machine-sixth-casino

³Linskey, Annie. (September 24th, 2012). Some gambling opponents focus fight on Prince George's: Clergy, others work for a 'no' vote from county residents. *Baltimore Sun*. Retrieved on September 24th, 2012, from <http://www.baltimoresun.com/news/maryland/politics/bs-md-gambling-prince-georges-20120924.0.4374734.print.story>

⁴Department of Labor, Licensing and Regulation. (2007), p.15.

⁵Senate Bill 3. (2007), p. 11.

⁶West Virginia Lottery. (n.d.) Data downloadable from <http://www.state.wv.us/lottery/vidsum.zip> and <http://wvlottery.com/tablegames/reports.aspx>

⁷Id.

held in December 2009.⁸ By taking this measure, West Virginians stepped further in front of Maryland in terms of attracting economic activity and related fiscal benefits.

Exhibit 1 reflects annual VLT revenues in Charles Town over the past 10 years. Over the course of the two most recent fiscal years, table games have helped gaming revenues to surge from slightly less than \$400 million to nearly \$570 million (FY10 v. FY12). If various estimates are correct and Marylanders reflect 30 to 37 percent of these revenues, this means that Maryland's economy is currently being drained of roughly \$200 million per annum by Charles Town alone.^{9,10}

Exhibit 1: Gaming Revenues in Charles Town, VLTs and Table Games, FY03 – FY12¹¹

	VLTs	Table Games	TOTAL
FY03	259,851,596	n.a.	259,851,596
FY04	335,372,474	n.a.	335,372,474
FY05	384,481,933	n.a.	384,481,933
FY06	430,202,080	n.a.	430,202,080
FY07	458,782,318	n.a.	458,782,318
FY08	461,190,878	n.a.	461,190,878
FY09	441,590,876	n.a.	441,590,876
FY10	399,643,831	n.a.	399,643,831
FY11	396,796,542	129,739,169	526,535,711
FY12	409,338,884	160,290,084	569,628,968
10-year Total:	3,977,251,413	290,029,253	4,267,280,665
Impact of Table Games: (FY12 Revenue minus FY10 Revenue)			169,985,137

Note: Annual data are calculated for fiscal year beginning July 1st and ends June 30th of every calendar year. Source: West Va. Lottery

Exhibit 2: Estimated Gaming Revenue (VLT and Table Games Combined) Lost by Maryland to Charles Town, West Virginia, Under Three Maryland Participation Scenarios

	VLT	Table Games	TOTAL (VLT + Table)	Lost MD Activity Scenario 1 30%	Lost MD Activity Scenario 2 35%	Lost MD Activity Scenario 3 37%
FY03	259,851,596	n.a.	259,851,596	77,955,479	90,948,059	96,286,996
FY04	335,372,474	n.a.	335,372,474	100,611,742	117,380,366	124,270,963
FY05	384,481,933	n.a.	384,481,933	115,344,580	134,568,677	142,468,282
FY06	430,202,080	n.a.	430,202,080	129,060,624	150,570,728	159,409,704
FY07	458,782,318	n.a.	458,782,318	137,634,695	160,573,811	170,000,000
FY08	461,190,878	n.a.	461,190,878	138,357,263	161,416,807	170,892,482
FY09	441,590,876	n.a.	441,590,876	132,477,263	154,556,807	163,629,778
FY10	399,643,831	n.a.	399,643,831	119,893,149	139,875,341	148,086,464
FY11	396,796,542	129,739,169	526,535,711	157,960,713	184,287,499	195,105,756
FY12	409,338,884	160,290,084	569,628,968	170,888,690	199,370,139	211,073,794
10-year Total	3,977,251,413	290,029,253	4,267,280,665	1,280,184,200	1,493,548,233	1,581,224,219

Source: West Virginia Lottery

⁸ Blood-Horse.com. (December 6th, 2009). Charles Town gets OK to add table games. *BloodHorse.com*. Retrieved on September 24th, 2012, from <http://www.bloodhorse.com/horse-racing/articles/54300/charles-town-gets-ok-to-add-table-games>

⁹ Senate Bill 3. (2007), p.11.

¹⁰ Department of Labor, Licensing and Regulation. (2007). Slot Machines and the Racing Industry: A Review of Existing Data in Maryland and Neighboring States, P.15

¹¹ West Virginia Lottery. (n.d.) Data downloadable from <http://www.state.wv.us/lottery/vidsum.zip> and <http://wvlottery.com/tablegames/reports.aspx>

Exhibit 2 provides statistical detail regarding the amount of spending power transferred from Maryland to West Virginia through Charles Town using three different estimates of Maryland's share of activity there. Between FY2003 and FY2012, Marylanders spent well in excess of \$1.2 billion at Charles Town using the lower bound 30 percent estimate. If one uses the upper bound estimate of 37 percent, the figure approaches \$1.6 billion over the course of a decade.

Although not spelled out specifically in Exhibit 2, table games represented 28.1 percent of Charles Town's FY12 gaming revenue. Based on the figures above, this means that Maryland residents contributed between \$48.1 and \$59.4 million in table game spending at Charles Town in FY12 alone.

Estimating Question 7's Capacity to Re-Capture Maryland Dollars

○ Impact of Maryland Live!®

In estimating the ability of the proposed new casino in far-western Prince George's County to intercept economic activity, it makes sense to begin with an assessment of the impact of Maryland facilities already in operation. After all, it is possible that a certain share of Maryland dollars has already been recaptured. The question is whether the level of recapture is significant or relatively modest.

Maryland Live!® opened in June 2012 with approximately 3,100 slot machines. Facility owners are working toward eventually ramping up its allocation to 4,750.¹² According to the West Virginia Lottery, Charles Town's gaming revenue during the first three months after the opening of Maryland Live! contracted by approximately 6 percent relative to the corresponding period one year prior. Applying the 6 percent to Charles Town's FY 2012 revenue means that the impact of Maryland Live!® on Charles Town is estimated at \$34.2 million. This impact, however, includes revenue from out-of-state (i.e., non-Maryland) gamers. In other words, someone from Washington D.C., for example, who had been playing at Charles Town, but now plays at Maryland Live!® is included in this figure. In order to estimate the proportion of the impact derived from Maryland residents alone, the study team relied on vehicle license plates data at Maryland Live!®. Based on license plate counts for the June-July 2012 period, it is estimated that approximately 10 to 15 percent of the vehicles at Maryland Live!® are from out-of-state. Accordingly, if one estimates that 90 percent of the \$34.2 million is from Marylanders, the estimated impact on Charles Town becomes approximately \$30.8 million. Exhibit 3 summarizes this calculation.

Exhibit 3: The Impact of Maryland Live! on Charles Town's Maryland Business

Charles Town (FY12 Revenue)	Decline in Charles Town's revenue for Jun.-Sept. 2012	Portion recaptured including non- Maryland gamers	% recaptured by Maryland Residents alone	
\$569.63 million	× 6%	= 34.23 million	(× 90%)	= <u>\$30.83 million</u>

○ Prospective Impact of a Facility in Baltimore City

A Baltimore City gaming facility is scheduled to open in 2014 and the impact of this prospective casino should also be considered.¹³ In an analysis conducted by PriceWaterhouseCoopers and the Department of Legislative Services (PWC-DLS), it was estimated that annual revenue from VLTs would be approximately \$479.2 million at Maryland Live!® and \$384.4 million at Baltimore City's new casino. These estimates, however, do not consider the presence of a facility in Prince George's County.¹⁴ Based on geography, out-of-state impacts, and other

¹² Maryland Live! (April, 26, 2012). *Maryland Live! Casino Announced opening date – June 6 at 10 p.m.* Retrieved on September 26th, 2012, from <http://www.marylandlivecasino.com/assets/PDFs/MLCOpeningDateAnnouncement4.25.12FINAL.pdf>

¹³ Dresser, Michael. (August 1, 2012). Caesars-led group gets OK to run Baltimore casino: Panel also approves scaling back plans for Rocky Gap. *Baltimore Sun*. Retrieved September 25th, 2012, from <http://www.baltimoresun.com/news/maryland/bs-md-caesars-license-20120730,0,7673504.story>

¹⁴ Over view of the Impact of video lottery terminals in Prince George's County and table games in Maryland <http://www.wbal.com/absolutenm/articlefiles/90955-GAMBLING%20PRICE%20WATERHOUSE%20STUDY.pdf> , p.19

considerations, Sage estimates that 8 percent of the annual revenue at Baltimore City’s casino would be money otherwise absorbed by Charles Town. Therefore, the prospective impact of Baltimore’s facility on Charles Town would be approximately \$30.8 million. Exhibit 4 summarizes this estimation.

Exhibit 4: The Impact of Baltimore City’s Prospective Facility on Charles Town’s Maryland Business

Baltimore City VLTs revenue (estimated in PWC-DLS)	Portion recaptured from Charles Town’s gaming revenue	
\$384.4 million	× 8%	= <u>30.75 million</u>

Together, Maryland Live!® and the prospective Baltimore City facility will capture a bit more than \$60 million in activity that was leaving Maryland for Charles Town prior to the opening of Maryland Live!®. As a result, more than \$100 million in discretionary spending power will continue to leave Maryland (\$109M-\$149M), much of it associated with residents of Montgomery County if Question 7 does not pass. Over the course of 10 years, this will translate into between \$1.1 billion and \$1.5 billion of lost Maryland spending power lost to Charles Town alone.

○ VLTs and Table Games

It should be noted that since Maryland Live!® opened, table game revenue at Charles Town has been essentially unchanged (using data through September 8, 2012) compared with a comparable period in 2011. Overall gaming revenue is down 6 percent due entirely to an 8.4 percent drop in VLT revenue. The implication is that it is possible to compete with Charles Town, but Maryland’s lack of table games has severely limited its ability to fully compete to date. Based on the figures above, Marylanders will spend \$480-\$590 million on table games at Charles Town unless Maryland introduces competitive entertainment options with sufficient proximity.

Conclusion

Question 7 is of vital importance to the economic and fiscal wellbeing of Marylanders. If Question 7 fails to pass, the study team estimates that there will be between \$1.1 billion and \$1.5 billion of lost Maryland spending power to Charles Town alone over the next ten years (this analysis does not estimate additional revenue that will continue to be lost to Pennsylvania and Delaware). The success of Question 7 would position Maryland’s gaming program to be significantly more competitive along two dimensions. First, the addition of a strategically-located facility in far-western Prince George’s County would induce more Marylanders, including residents of Montgomery County, to keep their dollars at home. Moreover, the addition of table games would allow Maryland’s facilities a chance to finally compete with Charles Town on a level playing field.

At the same time, the location of the new casino would position Maryland to capture large numbers of players from Virginia. Exhibit 5 below reflects the fact that National Harbor, here used as a proxy for the gaming facility location in Prince George’s County, is generally closer to key Montgomery County cities than is Charles Town or other locations. The comparison becomes even starker when one considers important locations in Northern Virginia. It is thought that congestion on key transportation corridors such as Maryland 295 has limited the ability of Maryland Live! to attract Virginians among others. National Harbor would not suffer those issues to the same extent.

Exhibit 5: Distance and Driving Time from Four Key Cities in Montgomery County, Various Facilities

	Charles Town		National Harbor (Proxy)		Maryland Live!		Baltimore City	
<i>Montgomery County Town</i>	Distance (Miles)	Minutes	Distance (Miles)	Minutes	Distance (Miles)	Minutes	Distance (Miles)	Minutes
Bethesda	60.5	76	18.4	39	31.9	42	36.9	46
Gaithersburg	47.6	59	38.8	50	35.9	49	36.9	46
Rockville	52.6	65	35.1	45	32.1	47	38.9	51
Silver Spring	63.8	81	16.6	38	26.4	36	33.1	40
<i>Average distance/time from four Montgomery County cities</i>	<i>56.1</i>	<i>70.3</i>	<i>27.2</i>	<i>43.0</i>	<i>31.6</i>	<i>43.5</i>	<i>36.5</i>	<i>45.8</i>

Source: Google Maps